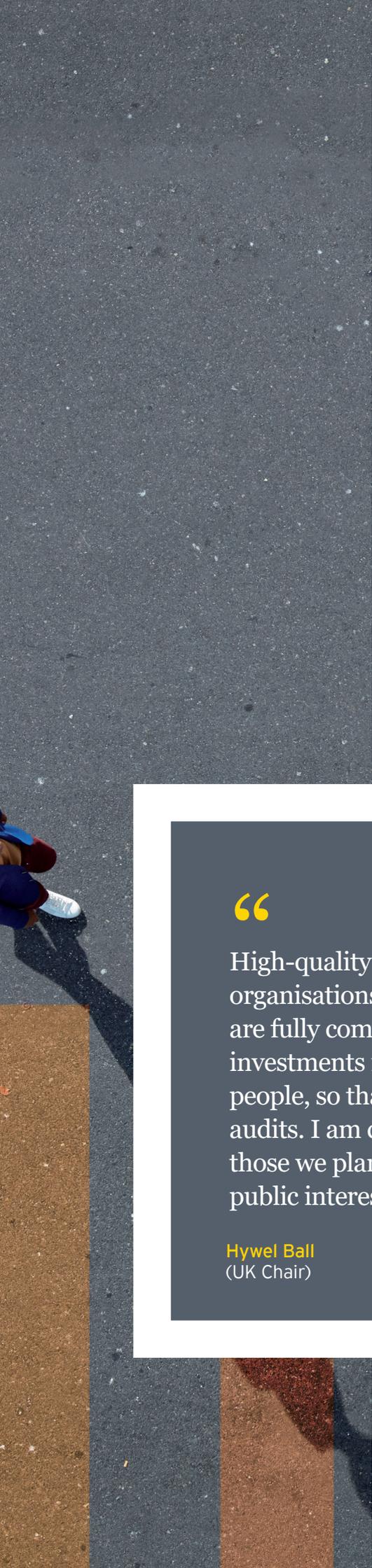


EY UK 2021 Audit Quality Report



Building a better
working world



“

High-quality audits are vital to building trust in organisations and confidence in the capital markets. We are fully committed to supporting our audit teams through investments in technology, processes and, most of all, our people, so that they can consistently perform high-quality audits. I am confident that the actions we have taken and those we plan to take will deliver this outcome and fulfil our public interest responsibilities.

Hywel Ball
(UK Chair)

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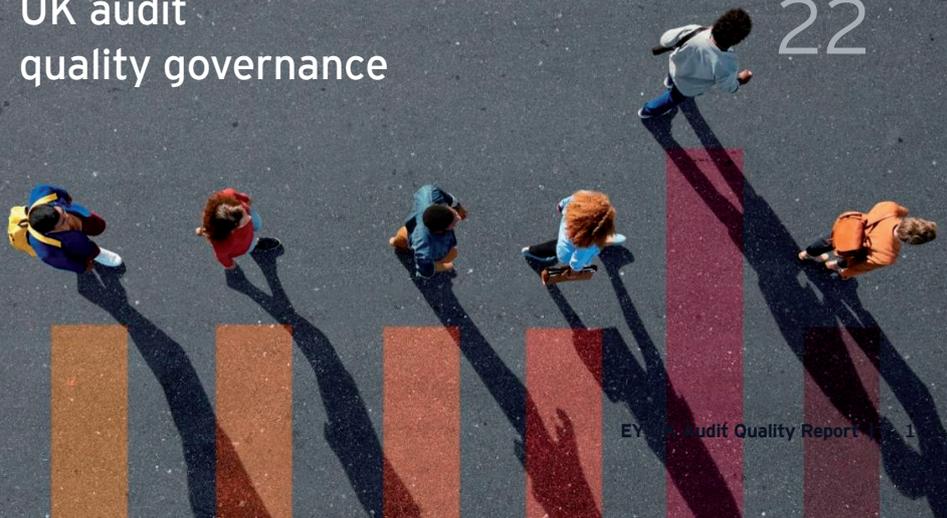
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EY UK 2021 Audit Quality Report: Summary

Our Purpose

Serving the public interest and taking personal pride in audit



98%

of our people believe delivering quality audits is a priority for them

Our Ambition

To have a high degree of confidence that we will have no audit failures across all our audits

US\$2bn

investment globally in audit quality over the next three years

Action to date

Examples of key actions taken in the UK as part of our Global Sustainable Audit Quality programme and more recently through our refreshed UK audit quality strategy launched in September 2020:

- ▶ Audit Quality Governance refreshed with an Audit Board and Audit Remuneration Committee established, with a majority of independent non-executives
- ▶ Annual Audit Quality Summits and National Training Academies introduced
- ▶ Global investment in leading data analytics tools and the creation of a digital audit methodology
- ▶ Key behaviours which drive high-quality audits identified and embedded in our approach to all audits
- ▶ Use of audit quality indicators introduced including a global milestones programme to improve and monitor project management of our audits
- ▶ Significant investment made in additional support for audit teams through hot file reviews, enhanced risk review processes and best practice documentation
- ▶ Launch of the Audit Purpose Barometer and Active Scepticism Framework designed to help increase the level of scepticism applied by our people on audits
- ▶ Increased access to external sector forecasts and projections to support our challenge of companies' forecasts where these underpin key accounting judgements
- ▶ Forensic Risk Assessment pilots, increased training and new requirements to sharpen our focus on fraud
- ▶ New tools and training to support review procedures that are critical to high-quality audits

Audit Quality Reviews

FRC reviews

Percentage of all audits inspected graded good or limited improvements



PwC 79%, Deloitte 79%, **EY 77%**, KPMG 64%

QAD reviews

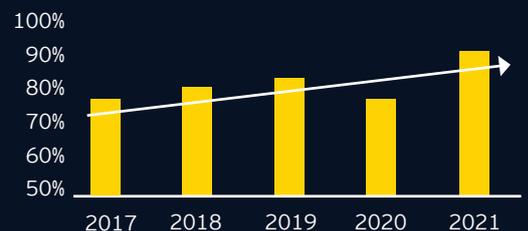
Percentage of all audits inspected graded satisfactory or generally acceptable



EY 93%, Deloitte 90%, KPMG 88%, PwC 81% (QAD on four-year average)

Internal reviews

Percentage of audits reviewed with no or only minor findings



Five-year results

Current year results



PwC 80%, **EY 79%**, Deloitte 79%, KPMG 59%



KPMG 100%, **EY 90%**, Deloitte 90%, PwC 90%



of audits reviewed with no or only minor findings

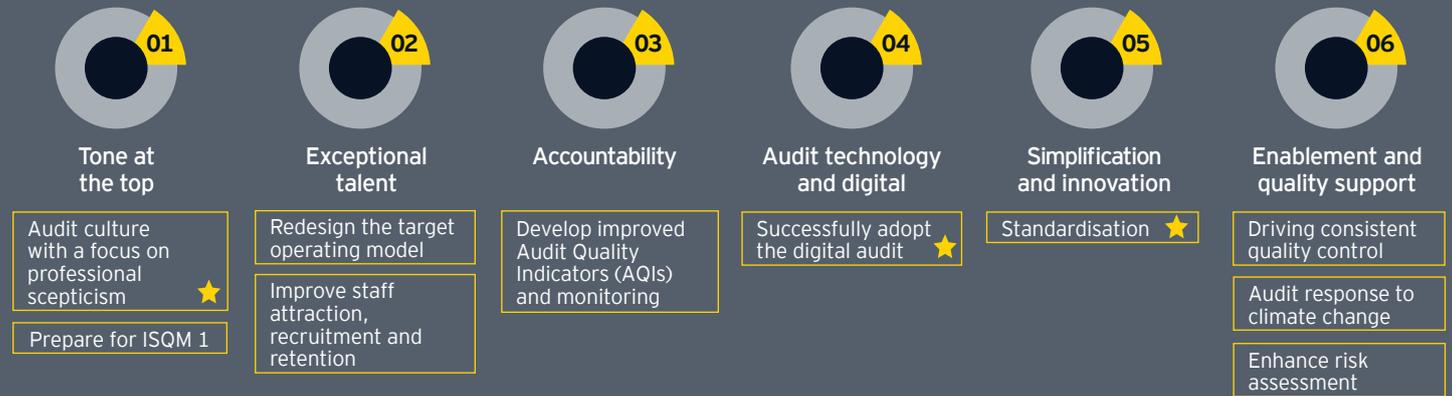
122 audits reviewed in FY21 covering **47%** of our Responsible Individuals

Reviews are typically weighted towards higher risk and potentially more complex audits with ever increasing expectations on audit quality. Maintaining or improving inspection results in this environment supports our view that we perform better audits than five years ago.

Our response

We perform high-quality audits most of the time but we need to drive further consistency through the effective implementation of our audit quality strategy.

Overview of our FY22 audit quality strategy



★ We are prioritising three strategic initiatives to address key review findings and improve consistency

- ▶ Audit culture with a focus on professional scepticism
- ▶ Successfully adopt the digital audit
- ▶ Standardisation



All these initiatives have a core thread – to improve consistency by identifying and adopting best practice on all our audits

Actions to drive implementation of strategy outputs

- ▶ Enhance local and national communications to further promote awareness
- ▶ Increase coaching support on strategy outputs
- ▶ Regularly test implementation rates through surveys, focus groups and team interviews

Our people



100% of our auditors respond positively when asked whether they understand their role in protecting the public interest



97% of our people believe audit quality is a clear priority communicated by the EY leadership team

In FY21 we have set out a clear vision of our **audit culture** and in FY22 we have already completed a survey to assess our people's current cultural experience against this vision.



87% are aware of the refreshed audit quality strategy released in September 2020



Given ongoing recruitment during the last 12 months this represents a good level of awareness across our business but we want to ensure that these **key messages** reach all our people and are well understood.



Over **1,000** of our partners, senior managers and, for the first time, managers attended our Audit Quality Summit in September 2021. A summary webcast has also been run for all other levels.



44% of our people believe the teams they work with had sufficient resources to enable them to deliver quality audits during FY21



Recruiting and retaining auditors with the right skills and experience is an issue faced across the profession. We are not immune but are determined to continue addressing this challenge through targeted recruitment and creating exceptional experiences, with the right reward, to retain our best talent.



We plan to have increased overall headcount by nearly **500** people on average between FY20 and FY22.

My vision for audit



Andrew Walton

Head of UK Audit

“

Our purpose is to deliver high-quality audits in the public interest. Our culture enables our people to deliver quality and take pride in the important job they do.

There is little doubt that the last 18 months have been one of the most difficult periods faced by business, our profession and society as a whole. Throughout this time I have been humbled by the way our people have supported each other, showing empathy, compassion and a real care for each other's wellbeing. The challenges included remote working, complex audit judgements, delaying audit opinions and coping with difficult personal circumstances. However, our collective commitment to deliver high-quality audits hasn't wavered.

Notwithstanding recent challenges, the needs and demands of our stakeholders continue to evolve and public and regulatory scrutiny remains at an all-time high. We fully support the need to define a future for audit which helps protect and promote sustainable, long-term value for stakeholders.

We have a critical role to play. EY's audit strategy focuses on delivering a differentiated audit that meets the needs of a broad range of stakeholders, creates exceptional experiences for our people and, at its heart, has a multi-year audit quality strategy to sustain high-quality audits. Together, these outcomes help to achieve our purpose of serving the public interest and taking personal pride in audit.

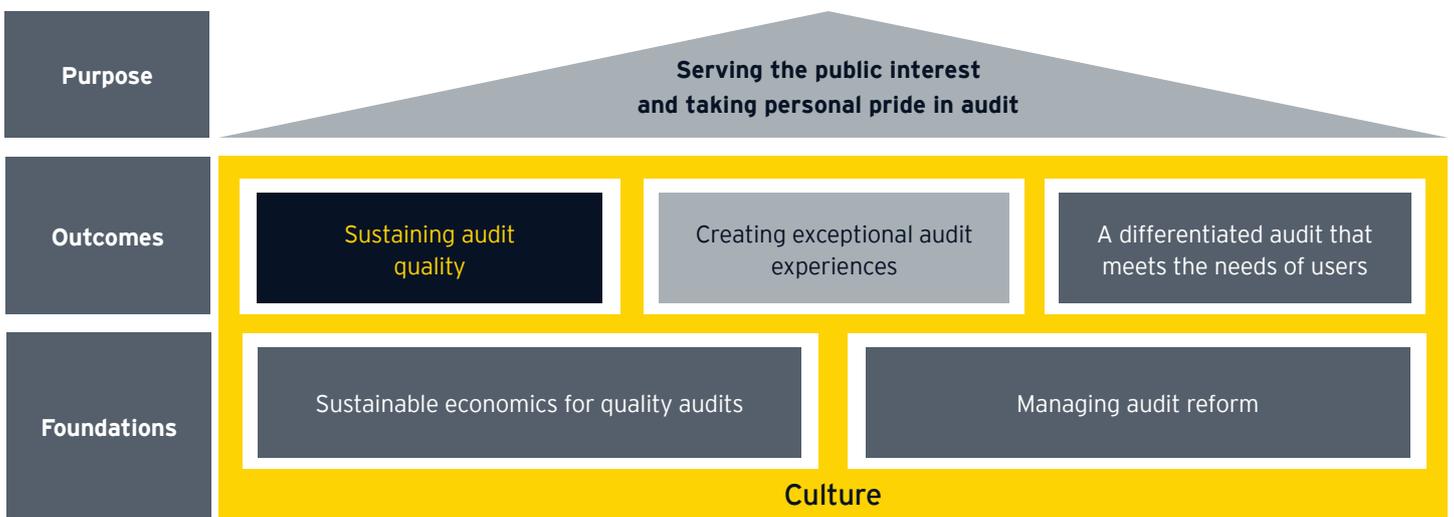
However, we cannot do this alone. It is critical that investors, boards, regulators and government pursue holistic measures that will address accountability across the entire corporate governance and audit ecosystem. This will help create the environment in which trust will be restored and the public interest can be served.

Sustaining audit quality

In September 2020 we launched our refreshed multi-year audit quality strategy. In its first year we have introduced a variety of initiatives to drive audit quality. Feedback from our audit teams has been positive on the new tools and techniques available and we are focused on broadening their implementation.

At the outset, we knew our strategy would have to be adaptable and we continue to take account of a wide range of factors when assessing its evolution. For FY22 this has resulted in the inclusion of new initiatives, such as the audit impact of climate change, which is becoming an increasingly important focus for investors and other stakeholders. We have also reset our priorities for the coming year on:

- ▶ Our audit culture with a focus on professional scepticism
- ▶ Successfully adopting the digital audit
- ▶ Improving standardisation on our audits



We know, and our regulatory inspections tell us, that we already perform high-quality audits in many cases, but we are not always consistent. The objective of our strategic initiatives remains to drive greater consistency in our delivery of high-quality audits.

Sustaining audit quality has remained paramount during the pandemic and we have taken a number of specific actions in response. These have included:

- ▶ Greater specialist input and best practice guidance across a variety of topics including economic assumptions, oil and gas prices, financial instruments, expected credit loss provisions, and pensions valuations
- ▶ Increased consultations, particularly on going concern assessments
- ▶ Supporting our audit teams to delay audit opinions where this is the right thing to do

In addition, as we and the companies we audit move to more hybrid working models, we are continually assessing how this impacts the way our teams operate to ensure audit quality is maintained.

In the last year, the FRC completed its investigation into the 2017 Stagecoach audit. This highlighted that regrettably, on that occasion, we fell short of the standards we set for ourselves, and the standards expected of us by the FRC and society. We have worked hard to rectify the issues identified, and no findings were raised in the FRC's review of our audit of the company for the 2020 year end, indicating that our efforts have been successful. We also await the outcome of ongoing investigations in relation to our historic audits of three other companies. All learnings from these will be incorporated in our audits going forward.

This Audit Quality Report is intended to help audit committees and other stakeholders understand the steps we are taking at EY to deliver consistent and sustainable high-quality audits.

Creating exceptional audit experiences

High-quality audits can only be delivered by engaged and talented people. Ensuring audit teams have the right number of people with the right skills and experience is an issue faced across the profession. We are not immune from this challenge and this is clear from our survey results. We are increasing our overall headcount in FY22 and our overall talent strategy sets out to ensure that a career in audit delivers an exceptional experience, with appropriate reward, so that we can recruit and retain the best talent. All stakeholders in the audit market have a collective responsibility to ensure that the profession remains attractive

in the long term. In FY22 we have identified three key priorities within our talent strategy that directly support audit quality:

- ▶ Recruiting experienced professionals and implementing our new global mobility programme to staff our teams with the best talent, being mindful of possible increased attrition across the profession as a whole as the economy strengthens. We are pleased to have maintained significant graduate and apprentice intakes over the last two years, recruiting 1,180 in this period.
- ▶ Further developing the technical and soft skills our teams will need in the future, particularly those that support a culture of challenge without creating unnecessary conflict.
- ▶ Embedding new ways of working to maintain audit quality in a hybrid-working world.

A differentiated audit that meets the needs of users

FY22 will see a significant roll out of our digital audit approach, EY Digital GAM. This puts data at the heart of our audits using analytical tools throughout the audit cycle. The deeper insights and increased assurance from our work are key parts of a differentiated audit.

In addition, we fully expect audit market reform to drive changes in the nature and scope of an audit, which in turn will change the work we perform. We are actively looking at how we develop the future of audit to narrow the expectation gap. Updates to how audits address going concern, fraud, cyber and non-financial metrics, including those related to climate impacts, are a vital part of these future changes.

Sustainable economics for quality audits

To produce market-leading, high-quality audits and a compelling people proposition requires investment. At the same time, the costs of mandatory tendering, auditor transition, increased regulatory scrutiny and competition for the best talent have placed significant commercial pressures on our audit business.

We continually look to reduce delivery costs through improved efficiency, while still driving quality improvements. However, pricing must also evolve as we face the implications of the operational separation of our audit and non-audit businesses and the inflationary headwinds prevailing in the UK market. Where companies present higher risks this also needs to be reflected in the returns achieved. In certain situations, where we cannot reach an

agreed commercial position or where we feel that our requirements to improve the governance and control over the business are ignored, we may choose to resign our position. However, we would only do so after careful consideration of whether this is ultimately in the public interest. The return on our audit business over all our portfolio has to create the financial resilience needed to drive sustained audit quality and manage the impacts of audit reform.

Managing audit reform

We have been actively engaged in the UK audit market reviews and fully supportive of the desire to create an audit ecosystem that better meets the expectations of our stakeholders and society.

We have already implemented changes in our governance structure in response to recommendations on operational separation. The Government's response to consultation by the Department for Business, Energy and Industrial Strategy (BEIS) consultation will inevitably bring change and we are readying ourselves for this.

We believe it's vital these reforms are implemented alongside changes in corporate reporting and stronger internal control accountability for directors. We would like to see a UK equivalent of the US Sarbanes-Oxley (SOX) regulations being introduced. We are focused on playing our part in ensuring changes have a positive impact on corporate reporting and audit quality, increasing trust in the profession and wider business.

Audit culture

Our distinct audit culture is the cement that binds the building blocks and foundation of our strategy together. We have been thoughtful in articulating a culture that is right for us: one that recognises we are part of a wider, global firm and is clear about whose interests our audits serve. There are three elements underpinning our desired culture:

1. Our people are focused on a common purpose. It is vital we foster and nurture the values, attitudes and behaviours that lead our people to do the right thing.
2. The essential attributes of our audit business are right:
 - ▶ Right Resources – We team with competent people, invest in technology, methodology and support
 - ▶ Right First time – Our teams execute and review their work, consulting where required to meet the required standard
 - ▶ Right Reward – We align our reward and recognition to reinforce the right behaviours
3. The six pillars of Sustainable Audit Quality are implemented. These are set out in further detail in this report.

A critical part of this culture is that our people are empowered to challenge and exercise professional scepticism across all our audits. However, we recognise that creating a culture requires more than just words from leaders. It has to be reflected in the lived experience of all our people each and every day. The absolute importance of the right audit culture to delivering high-

quality audits has been recognised, not only as a key component in our overall strategy, but also as one of the specific priorities of our audit quality strategy in FY22.

In July 2021, we launched an audit quality culture assessment to obtain feedback from our people on the values and behaviours they experience, and those they consider to be fundamental to our audit quality culture of the future. The purpose was to understand how aligned our current culture is to our vision. The overall cultural alignment index of 78% showed a three percentage points improvement when compared to the last full cultural survey in 2018. This is an encouraging place from which to start our journey.

Operational separation

Good progress has been made on our voluntary implementation of the principles of the Financial Reporting Council (FRC) for the operational separation of our audit business from the rest of the firm. From 1 July 2021, we have put in place a new governance framework to reflect the requirements of operational separation. Further details can be found on page 22. This will continue to evolve in the year ahead and be kept under review. Other key changes from operational separation include setting a perimeter around our audit business and formalising financial arrangements, including arms length transfer pricing of specialist services.

In many of our audits we utilise internal specialists such as tax, forensics, information systems, asset and derivative valuations, and actuarial analysis. Their involvement is critical to conducting a high-quality audit and we are mindful that operational separation is done in a way which doesn't limit access to these specialists.

We are confident that we are able to implement the principles of operational separation effectively.

Conclusion

Auditing in the current environment continues to be challenging and, while we all hope to be through the most significant impacts of the COVID-19 pandemic, uncertainty remains. I continue to be impressed by how our teams have risen to the challenge in delivering our audits in such difficult times.

Audit quality, and delivering this consistently across all our audits, is our number one priority.

I, together with the audit leadership team and all our partners and staff, are committed to addressing the challenges we face and fulfilling our purpose in serving the public interest.

Andrew Walton

Head of UK Audit

Our UK Sustainable Audit Quality programme



“

Our multi-year strategy, launched last year, remains relevant. We have made important updates to reflect changes relating to enhancing our culture of quality, continuing our focus on professional scepticism and challenge; focusing on new developments such as the quality management standard ISQM1 and climate change, the adoption of Digital GAM and finally implementing initiatives to address our overriding challenges of consistently delivering high-quality audits. I have every confidence that we are well on our way to achieving our audit quality ambition.

Michael-John Albert
UK Quality Enablement Leader

Our UK SAQ programme

The UK Sustainable Audit Quality (SAQ) programme aligns with EY's global SAQ programme and has been running since 2014. Since then significant investments have been made to keep improving audit quality. Through the efforts of our regulators and our response through the SAQ programme there is little doubt that we are performing higher quality audits.

Over the last five years:

- ▶ The FRC has graded an average of **77%** of all our audits as requiring no or limited improvements (83% for audits of FTSE 350 companies).
- ▶ The ICAEW Quality Assurance Department (QAD) has graded an average of **93%** of our audits as satisfactory or generally acceptable.*
- ▶ Our internal quality reviews have graded **82%** of the audits reviewed as having no or only minor findings.

These reviews have covered nearly **700** audits in this time.

In our most recent inspection results:

- ▶ The FRC graded **79%** of all our audits as requiring no or limited improvements (75% for audits of FTSE 350 companies).
- ▶ The QAD graded **90%** of our audits as satisfactory or generally acceptable.
- ▶ Our internal quality reviews rated **91%** of our audits as having no or only minor findings.

Audit quality is not defined in professional standards, and stakeholders may have different views on how it should be measured. While no single metric can be viewed as a definitive measure of audit quality, a broad set of metrics can be used to give an indication of audit quality.

This is why we take the outcomes from all reviews, along with other indicators, into account when assessing audit quality. This provides the most rounded view across all our audits. Reviews, particularly those of the FRC, focus on the highest risk and most complex audits and over time expectations on audit quality have continued to increase. Maintaining and improving outcomes from these inspections in this environment demonstrates the progress being made to improve audit quality and supports our view that we are performing better audits than we were five years ago.

Nonetheless, we are focused on continuing to improve consistency across all reviews. An improvement in our internal review scores in FY21, across a larger population of audits than that covered by external reviews, is encouraging but we need to do more to replicate this in our FRC reviews. We were disappointed that one of our QAD-reviewed audits required significant improvements this year. We have performed root cause analysis on this and other review findings and will address any actions required in response.

As explained further in the following pages, there remains more to do to reach consistently the highest standards on all our audits. The drive to achieve this is captured in our audit quality ambition.

Our audit quality ambition

Our ambition is to have a high degree of confidence that we will have no audit failures across all of our audits.

In this context we consider audit failures to be:

- ▶ Any 3 or 4-rated engagements on FRC inspection
- ▶ Any 'improvements required' or 'significant improvements required' on QAD inspection
- ▶ Any Part I findings on PCAOB inspection
- ▶ Any engagements rated 2 with significant findings or 3 on internal inspection
- ▶ Any audit investigations resulting in fines and actions leading to successful claims against the firm

* QAD results calculated over a four-year period for which data is publically available.

Findings from all reviews are assessed through our root cause analysis programme. This considers the nature and severity of the finding driving any rating when determining the right actions to take in response.

Our global SAQ programme creates the framework under which we identify specific initiatives to implement these actions. The global SAQ programme is structured into six core pillars.



Since the start of our SAQ programme we have implemented a wide variety of initiatives, many of which continue to support the delivery of high-quality audits today. These initiatives include:

- ▶ Audit Quality Governance refreshed with the Audit Quality Board and Independent Oversight Committee established
- ▶ Annual Audit Quality Summits and National Academies introduced
- ▶ Global investment in leading data analytics tools and digitisation
- ▶ Key behaviours which drive high-quality audits identified and embedded in our approach to all audits
- ▶ Use of audit quality indicators introduced including a global milestones programme to improve and monitor project management of our audits
- ▶ Significant investment made in additional support for audit teams through hot file reviews, enhanced risk review processes and best practice documentation
- ▶ Greater linkage between audit quality and reward for audit partners and our people

These and many other initiatives have improved audit quality since the inception of the SAQ programme, as shown by review gradings on the previous page. However, we're very clear we have more to do to respond to our regulators' findings; achieve our own audit quality ambitions; and most importantly, to ensure we serve the public interest to the highest standard.

That is why in 2020 we performed a full reassessment of our UK SAQ programme with a view to making the step change necessary to ensure that we can confidently and consistently deliver high-quality audits every time. This reassessment led to the development of our redefined audit quality strategy.

Our audit quality strategy

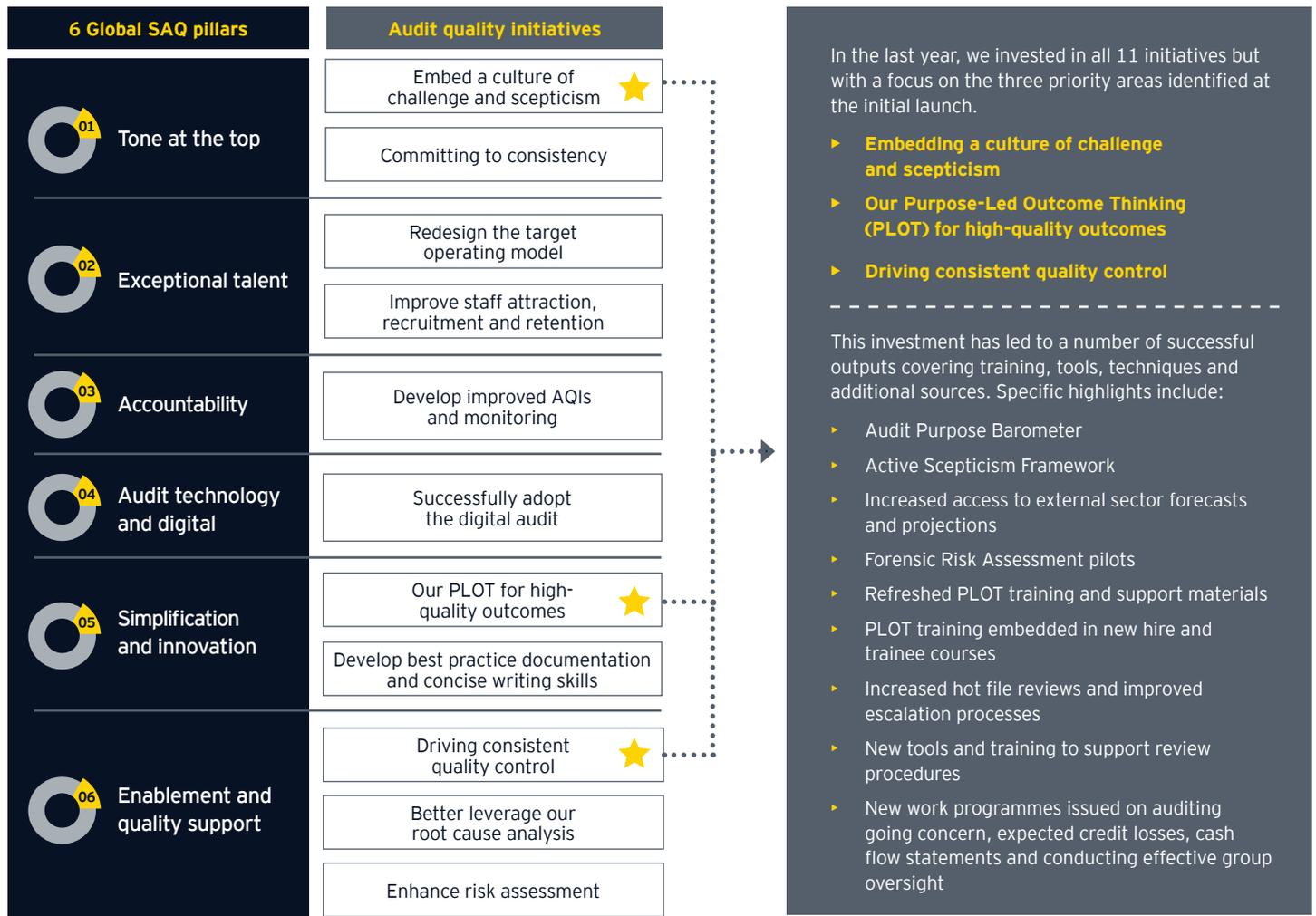
To deliver against our audit quality ambition, our strategy has been built on a thorough review of those specific factors that most successfully deliver high-quality audits.

It is clear there is no one action that can ensure audit quality. It requires a carefully considered series of actions across our business that impact our audits on a daily basis.

The development and implementation of our strategy has been subject to ongoing review and challenge by our independent non-executives (INEs) and internal audit reviews.

In September 2020 we launched 11 strategic initiatives to drive greater consistency in delivering high-quality audits, with each initiative sitting under the existing Global SAQ pillars.

Our audit quality strategy – key highlights from FY21



Evolving our audit quality strategy

We designed the strategy to be adaptable, so as circumstances changed we could prioritise areas that have the greatest impact on audit quality.

We have taken a wide range of actions to assess what adaptations we need to make for FY22:

- ▶ Subjected the programme to EY internal audit review
- ▶ Undertook an adoption and effectiveness survey with our audit teams
- ▶ Performed a six-month evaluation of each initiative focusing on progress, continued relevance and a critical evaluation of what needs to evolve
- ▶ Understood (both positive and negative) issues and trends emerging from our most recent internal and external reviews
- ▶ Reviewed root cause analysis findings to ensure our planned actions properly address these
- ▶ Incorporated FRC feedback on our strategy
- ▶ Conducted focus groups

- ▶ Reviewed feedback received from EY EMEIA leadership on our strategy
- ▶ Considered expected future developments like climate change, ISQM 1 and audit firm culture expectations

This told us that we have made some good progress and the strategic initiatives are making a difference. In addition, the FRC identified the following best practice from the strategy:

- ▶ The Audit Quality Summit as a key vehicle for sharing messages with our managers and above
- ▶ Using predictive audit quality indicators as the basis for active interventions to maintain audit quality
- ▶ Partner Sponsors appointed for each quality initiative

However, there are some new areas to address and two key challenges we face: ensuring consistent high-quality audits every time and ensuring implementation of the audit quality strategy outputs.

Key challenge: ensuring consistent high-quality audits every time.

In the vast majority of cases we achieve high-quality audits and this is reflected in our FRC, QAD and internal inspection results. However, where review findings are raised, these can often be in the same areas that are identified as good practice in other audits. Within our audit quality strategy for FY22, we

have prioritised three strategic initiatives that are highlighted in the graphic below. These all have a common thread to drive consistency across all our audits through the adoption of best practice tools and techniques.

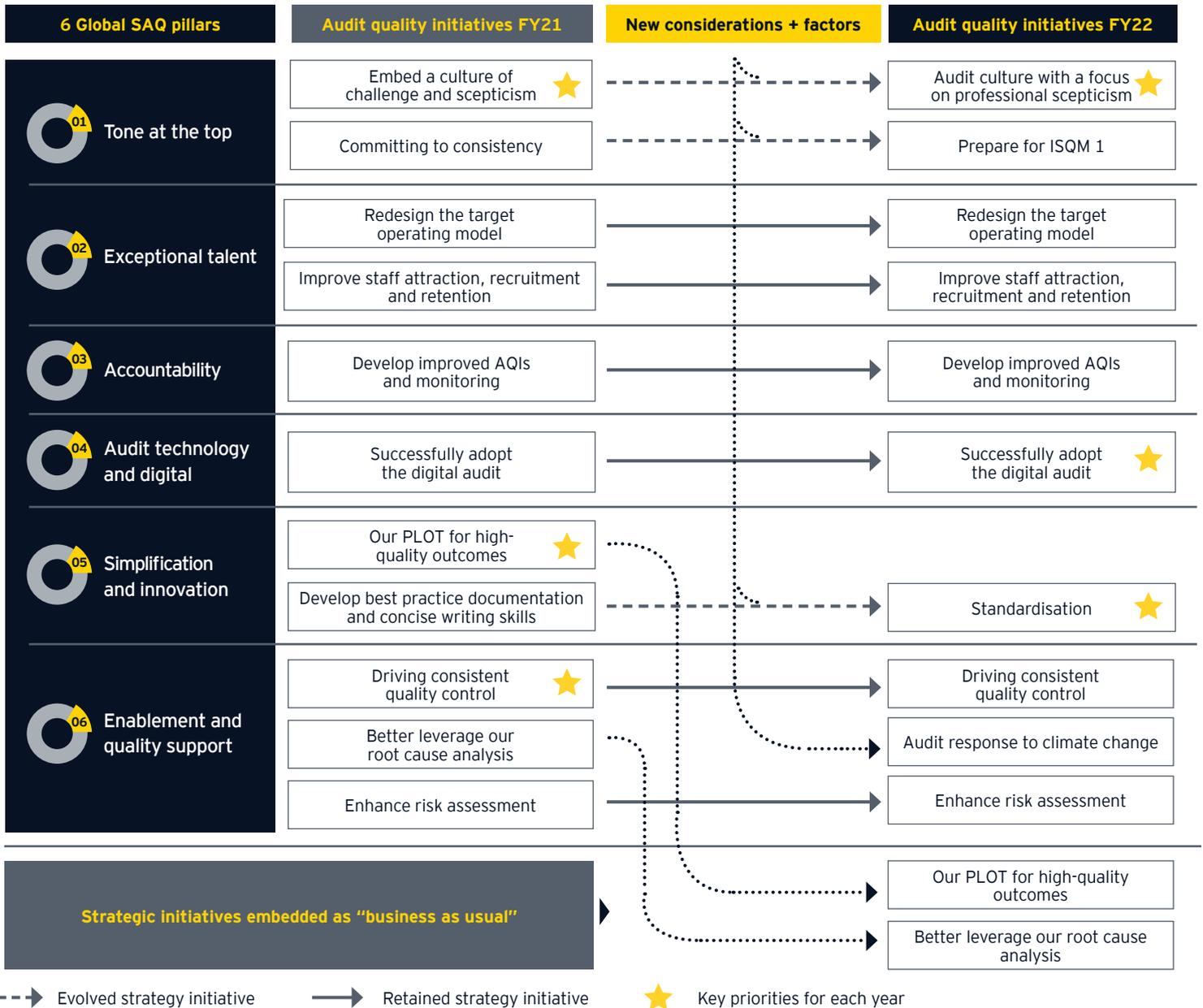
Key challenge: ensuring implementation of our audit quality strategy outputs.

Implementation of our audit quality strategy outputs is a key focus for us and has also been highlighted as a risk by the FRC. In FY21 we tracked our progress through surveys, focus groups and many of the other actions listed on the previous page. These have told us that there is more we can do to broaden implementation across our audit teams. We will continue to track and take actions as necessary to drive greater implementation through FY22. This has already started with our 2021 Audit Quality Summit, which brought together over

1,000 of our partners, senior managers and managers to set out our priorities and expectations for FY22. Further details of the Audit Quality Summit can be found on page 13. Following the Summit, a summarised session was also run for all our other auditors to ensure alignment of priorities and expectations across all levels.

The graphic below summarises how our audit quality strategy has evolved from FY21 to FY22.

Evolution of our audit quality strategy for FY22



Priority areas for FY22

In setting our priority areas for FY22 we focused on those initiatives which will have the biggest impact on driving consistency in the delivery of high-quality audits and directly impact the work our audit teams perform.

1. Audit culture with a focus on professional scepticism

We have broadened this initiative to reflect the importance of our audit culture in the delivery of high-quality audits. Being professionally sceptical and willing to challenge remains an absolutely critical part of our audit culture. We are retaining this initiative as a key priority for FY22 to build on the positive changes already made in the prior year. Looking forward, we will be piloting a centre of excellence for impairment reviews which will seek to drive consistency in our approach to this critical audit area.

2. Successfully adopt the digital audit

Successfully adopting the digital audit becomes a priority initiative for FY22. This aligns with our clear plan to have fully adopted our global digital audit methodology, EY Digital GAM, across all relevant audits by the end of FY23. This is part of a global roll out of EY Digital GAM which ensures all our audits

apply the same approach to adopting a digital audit.

This approach seeks to harness the power of data analytics and automation throughout the audit lifecycle. It provides improved bespoke risk assessments, more robust assurance from assessing entire populations of data, and better insights into the company's financial processes earlier in the audit cycle.

3. Standardisation

Standardising the work we perform, where appropriate, is a critical element to drive greater consistency in our approach and documentation of high-quality audits. We need to ensure we share best practice more effectively and have this consistently adopted across all our audits.

This perfectly aligns with our first two priorities. Best practice frameworks on how to apply scepticism in complex judgemental areas have been a key output in FY21 and adopting the digital audit will drive consistent outputs and analysis from our analytics tools. However, this initiative will look to extend the use of standardised best practice tools and approaches to further ensure high-quality work is produced first time, every time. This includes creating centres of excellence for higher volume activities such as our core engagement continuance and acceptance procedures.

Other key changes

We have created a direct link between the adoption of the quality management standard ISQM 1 and our audit quality strategy. This emphasises our commitment to consistently complying with our firm's processes and controls as we move to full adoption of ISQM 1 (see page 13).

As the impact of climate change on businesses and the broader environmental, social and governance (ESG) agenda gains more momentum, we need a robust audit response. Hence, this is now embedded as one of the elements of our audit quality strategy. We are developing an enhanced methodology and support for our teams which will be rolled out this year.

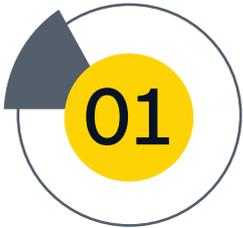
Finally, we have taken the decision to reflect the fact that our strategic initiatives need to have a natural endpoint at which the changes are implemented and become 'business as usual'. We believe that the refresh of our PLOT behavioural approach and our root cause analysis (RCA) initiatives have reached this stage. These initiatives will continue to be important and their impact will be assessed on an ongoing basis as they are fundamental to our delivery of high-quality audits. However, at this stage we believe no further strategic changes are required. With regards to our RCA, the process and controls have been reviewed through an EY internal audit with a positive outcome and no key findings were raised by the FRC in its most recent report.

We plan to continue to develop our work under the remaining initiatives as we move through FY22. Further detail on each of these initiatives is included in the following sections of this report.

We communicated our evolved audit quality strategy to our partners, senior managers and managers at our virtual Audit Quality Summit and via a subsequent webcast with all our teams, both during September 2021.

Progress in delivering the strategic initiatives is reported to the Audit Quality Executive Committee (AQE) (previously the AQB) and Audit Board. Details of these bodies are noted on page 22. This ensures there is appropriate assessment and challenge of the content and implementation of the initiatives in a timely manner.

The following pages of this report align with the six Global SAQ pillars. In each section we have set out in further detail the actions we are taking under each strategic initiative, along with a brief summary of other quality initiatives under that pillar. At the end of this report we have also summarised the governance structures we have put in place to drive audit quality.



Tone at the top

Strategic initiatives

Audit culture with a focus on professional scepticism (FY22 priority)

Our FY21 priority initiative to build a culture of challenge and scepticism has been expanded to cover our wider audit culture. The initiative, which has a continued focus on professional scepticism, is retained as a FY22 priority initiative due to its importance.

Research shows that our audit culture should empower our auditors to provide constructive challenge, prioritise stakeholder confidence and public interest over 'customer service', and embrace the values and behaviours that are integral to audit quality. As a result, during FY21, we underwent a process to redefine our audit quality culture.

There are three elements underpinning our desired culture that supports high quality audits in the public interest:

1. Our people are focused on a common purpose
2. The essential attributes of our audit business are right: Right Resources; Right First time; Right Reward
3. The six pillars of Sustainable Audit Quality are implemented

These elements are covered in further detail in the EY UK 2021 Transparency Report.

In FY21, to assist our audit teams in exercising scepticism, we introduced a number of new initiatives that were successfully received.

- ▶ An Audit Purpose Barometer – to help our teams self-assess the current approaches and scepticism applied on their audits.
- ▶ An Active Scepticism Framework – built on external research and designed to help our auditors recognise all factors, internal and external, which can result in a confirmatory bias, so that this can be avoided.
- ▶ Access to a more detailed external industry analysis and forecasting tool. This is an accessible and independent resource to help enhance audit teams' risk assessments and support our challenge of management's forecasts.
- ▶ A project to leverage our Forensic & Integrity Services (FIS) practice expertise to support our teams in assessing fraud risk and other indications of management bias. In FY22, this collaboration with FIS has been expanded to all FTSE 350 engagements.

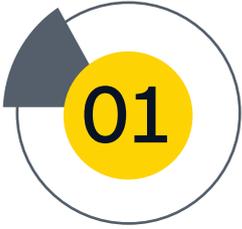
In FY22 we are prioritising the wider adoption and implementation of all these initiatives. In addition, we are piloting a centre of excellence for impairment reviews across a limited number of engagements and delivering further training to enhance our teams' abilities to challenge effectively.



Sharpening our focus on fraud

Across EY globally, we have sharpened our focus on fraud risk identification and our audit response to these risks. In the last year this has included:

- ▶ Additional training which uses the knowledge and experience from our forensics professionals
- ▶ Introducing new mandated requirements on key accounts
- ▶ Better leveraging insights obtained through the use of data analytics



Tone at the top

Strategic initiatives

ISQM 1

International Quality Management Standard 1 (ISQM 1) is effective from 15 December 2022. It aims to ensure we have appropriate systems and controls in place to ensure the delivery of high-quality assurance reporting at a firmwide level.

Although much of this requires centralised processes and controls to be operating effectively, it has knock-on consequences for the timely and accurate completion of a range of supporting activities that equip our auditors and business with the information they need to perform effectively.

At an individual level this includes, feedback, training and independence assessments, which need to be maintained and completed on a timely basis. From a business perspective the recording of hours charged, risk assessments, consultations and other data are again vital for ensuring appropriate oversight of audit risk and quality.

Assessing our quality management processes and controls and documenting these to comply with ISQM 1 is underway.

To drive compliance at an individual and audit team level, we have already delivered on the following:

- ▶ Updated reporting of Audit Quality Indicators (AQIs) as noted on page 16.
- ▶ Ensured professional development days were included and held in people's diaries to allow time to fully concentrate on learning and personal development matters.
- ▶ Tracked training completion rates and compliance through our global career development platform, LEAD.
- ▶ Incorporated compliance metrics into individual's year-end performance reviews.
- ▶ Progressed with the development of a Compliance Portal to simplify compliance requirements for our auditors into a single 'one-stop shop'. The first stage pilot of this will be taking place in the coming months.

Ethics and integrity

Our approach to business ethics and integrity is set out in the EY Global Code of Conduct. This covers how our people:

- ▶ Work with one another and the companies we audit
- ▶ Act with professional integrity
- ▶ Maintain objectivity and independence
- ▶ Protect confidential information

Annually all our auditors confirm their independence and compliance with the Global Code of Conduct.

Audit quality governance structure

Details of our audit quality governance structure, which provides challenge and oversight, are provided on page 22.

Audit Quality Summits

Similar to the prior year, the 2021 summit was delivered virtually across a week of events.

- ▶ Attendees – For the first time, our manager population joined our partners and senior managers at this event. This resulted in over 1,000 people attending the summit.
- ▶ Speakers – Our speakers included EY senior partners, audit committee chairs, our ANEs and regulators.
- ▶ Key topics – We covered key successes from our audit quality strategy in the last 12 months and how this needed to evolve to address ongoing and new challenges. The event provides an opportunity to communicate key leadership messages on audit quality, along with our plans for the year ahead.

Following the summit, we also ran a summary session for all our other auditors to ensure alignment of priorities and expectations across all levels.



of EY auditors respond positively when asked whether they understand their role in protecting the public interest



of our people believe audit quality is a clear priority communicated by EY leaders



Exceptional talent

Strategic initiatives

Improve staff attraction, recruitment and retention

A vital part of our audit quality strategy is ensuring that we attract and retain a diverse range of people who share our values and commitment to serving the public interest and who take a personal pride in audit.

Our reputation as a great place to work enhances our ability to attract talented people.

EY was ranked **top 10** in the 2021 LinkedIn Top Companies list, published by LinkedIn in April 2021.

In recruiting candidates, we consider not only technical skills, but also attributes such as integrity, curiosity, ethics and the ability to collaborate in high-performing teams. Despite the uncertainty caused by the pandemic, we have continued to recruit significantly in both FY20 and FY21, with more than 2,000 experienced auditors, graduates and apprentices joining us over this period, building a pipeline of talent for the future.

Retention of the best talent requires recognition and reward of the right behaviours to keep our people engaged and make sure we have continuity of skills and experience. More details about this can be found on page 16.

In FY21 we delivered the following actions to promote audit quality actions and behaviours in our people:

- ▶ Assessed additional competencies that align with audit quality during the recruitment process
- ▶ Established an onboarding programme specifically covering the UK regulatory environment and expectations
- ▶ Reassessed our performance review process to further enhance the linkage between audit quality and reward and recognition

We will also be piloting a secondment programme in FY22 for senior managers seeking progression. This will require them to spend time working in an audit quality department to broaden skills and experience outside their existing audit portfolio.

Redesign the target operating model

We continually review our operating model to ensure we have the right resource, with the right skills, doing the right tasks. Results from our Audit Quality Survey show that only 44% of our people believe the teams they work with had sufficient resources to enable them to deliver quality audits during FY21. This is below where we want to be. We understand that carrying out work remotely and dealing with the additional challenges of COVID-19 on audits has required extra work and has placed additional demands on our people.

Given the importance of having the right resources within our business to ensure audit quality, resourcing indicators are monitored monthly by the AQE with actions taken when required. These actions focus on recruitment, retention and having the right portfolio of work. Alongside this, we have resigned from audits where we do not receive a fair fee that supports audit quality and are not tendering for engagements when resourcing is not available to either support the bid or deliver the audit.

In FY21, we also carried out a review of partner capacity and an assessment of administrative time spent by our managers and senior managers to identify tasks which could be streamlined. We continued to drive the use of audit automation and adoption of centres of excellence (CoEs) as noted on page 20.

Our work in this area will continue throughout FY22 and beyond and fully take into account the impact of operational separation on our business.



Exceptional talent

Diversity and inclusiveness

EY has a long-standing commitment to diversity and inclusiveness (D&I). Building high-performing, diverse and inclusive teams is especially important in audit, where diverse perspectives drive professional scepticism and critical thinking. Under our differential focus on race and gender, we have a target of 40% female and 20% ethnic minority partners by 2025, of which 15% will be Black.

In the November 2020 employee listening survey, globally 82% of auditors said the EY organisation prepares them to work effectively with clients and colleagues from different countries and cultures, and 86% agreed that the people they work with make them feel that they belong to a team. These results were 84% and 81% respectively for EY UK.

Leaders across EY make D&I a priority and it is a key metric across all the organisation's talent management programmes. EY also created the Global Social Equity Task Force (GSET) to develop cohesive action plans specifically addressing inequity and discrimination, including racism.

EY Badges and Tech MBA

Our EY Badges programme allows staff to learn and develop expertise in a wide variety of areas on demand.

In FY21, EY has awarded over **160,000** EY Badges globally covering skills in leadership, business and technology. These enable our people to build the career they want in a way that suits them.

In addition, a further 17 EY professionals globally recently celebrated completing the EY Tech MBA, an online qualification awarded by Hult International Business School, which is the first-ever fully accredited corporate MBA.

In FY22, we are adding two new EY Masters degrees through our partnership with Hult: the EY Masters in Business Analytics (EY MBAN) and the EY Masters in Sustainability.

Development

In FY21, we have spent more than 272,000 hours (FY20: 258,000) on internal technical training and development for our people, excluding professional qualification training hours.

We obtain feedback from our people as part of our annual audit quality survey and in the most recent survey,

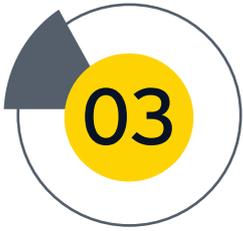


78% of our people agree they receive sufficient training and development to enable them to deliver quality audits

Our learning resources cover key technical content, adjusted to address new technologies and strategic priorities that promote audit quality. This includes adding specific updates on key findings from our regulatory reviews and responding to our people's feedback on the training and development they need.

We continue to support a wide variety of initiatives to give our staff rewarding experiences. Examples include, our new global mobility programme 'Mobility 4 U', and embracing flexible and dynamic working practices.

As we move into a future of hybrid working, we have communicated with our people on the potential implications and we have provided guidance on striking the right balance between health, wellbeing and performance. This topic was also covered in our Audit Quality Summit.



Accountability

Strategic initiatives

Improved AQIs and monitoring

Assurance leadership monitors the execution of the EY strategy and vision by local geographies through a combination of metrics or AQIs. These include: external and internal inspection results; Milestones performance; people surveys; and retention rates. The Audit Quality Executive Committee receives monthly information on these and other metrics. This broad range of measures allows the most rounded and up-to-date view on audit quality to be taken at any point in time and actions taken accordingly.

AQI dashboards help to inform the leadership about whether particular actions are having the intended effect, to provide an early warning where intervention is warranted and to support the effectiveness of the overall EY system of quality management.

In the last 12 months, we have continued to develop the indicators at a firmwide and engagement level alongside improving the way that this information is presented. These updates have taken into account the FRC's previous thematic

report on AQIs and indicators monitored at an EMEA and global level by EY. We continue to be monitored by EY Global and held accountable for our performance against certain AQIs.

AQIs continue to enable us to understand macro-pressures across the audit practice and we have made real-time interventions into individual audits showing signs of possible stress, as a result of monitoring engagement level indicators.

Audit quality information has always been available to partners at an engagement level, including enhanced project management capabilities in our audit platform EY Canvas. During FY21, we created more readily accessible dashboards for partners that pull key engagement status and Milestones information together across their portfolios. Our Milestones programme (see page 21) is a good example of the engagement-level tracking information we use.

Over the longer term we are looking to automate the collation and analysis of all our AQIs so that this information will be available live and on demand to the AQE and all our partners.

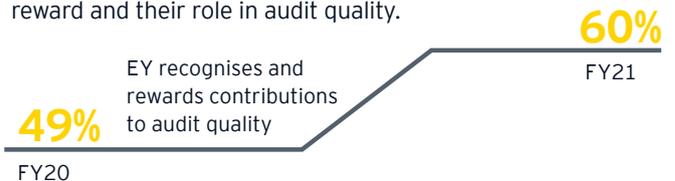
Link between audit quality and reward

Performance on audit quality is a critical factor in audit partners' overall evaluation. Partners' quality performance is determined using a number of criteria, including: internal and external inspection results; compliance with risk management policies; completion of mandatory learning; and level of involvement in embracing and driving quality initiatives. All responsible individuals are subject to an internal quality review at least once every three years. A sample of engagements is also selected at random each year, meaning that any responsible individual could be selected for review in any year. The linking of audit quality to partner remuneration has been identified as an area of good practice by the FRC.

Performance on audit quality is also a core component of all staff appraisals and is paramount when considering candidates for promotion and annual performance awards.

In addition, we run a non-monetary recognition scheme called 'audit culture coins' to promote a culture of audit quality. Winners are publicised quarterly and this scheme has been recognised by the FRC in its culture thematic review.

When surveyed, EY people increasingly recognise the link between reward and their role in audit quality.



This follows changes such as giving more weight to quality when determining variable pay awards and the launch of a new UK recognition programme enabling staff and partners to provide instant recognition. Although we are pleased that this is a move in the right direction, we are committed to do more in FY22.

Learning from our experience

External and internal inspection findings are always analysed, collated and shared with our staff as part of our continuous process of learning and development. One way we achieve this is by root cause analysis, a process discussed in further detail on page 21.

Throughout FY21, we have increased the use of focus groups, a variety of audit quality surveys and individual team interviews to understand the impact of changes made to date and to continue identifying areas we need to improve. Certain statistics in this report are drawn from these surveys.

Audit technology and digital

Strategic initiatives

EY Digital Audit (FY22 priority)

The EY Digital Audit is a suite of technology and audit approaches that is transforming the way our teams deliver quality audits globally. The adoption of certain data analytics tools and other technologies has been underway for some time. However, EY Digital Audit brings the ever-increasing scope of such tools into a comprehensive data-driven approach.

Hand in hand with this, EY Global has transformed EY's Global Audit Methodology (GAM) to put data at the heart of the audit. Known as **EY Digital GAM**, this new methodology rebuilds the infrastructure of how an audit should be conducted, using data across all stages of an audit.

The EY Digital Audit seeks to enable high-quality audits through:

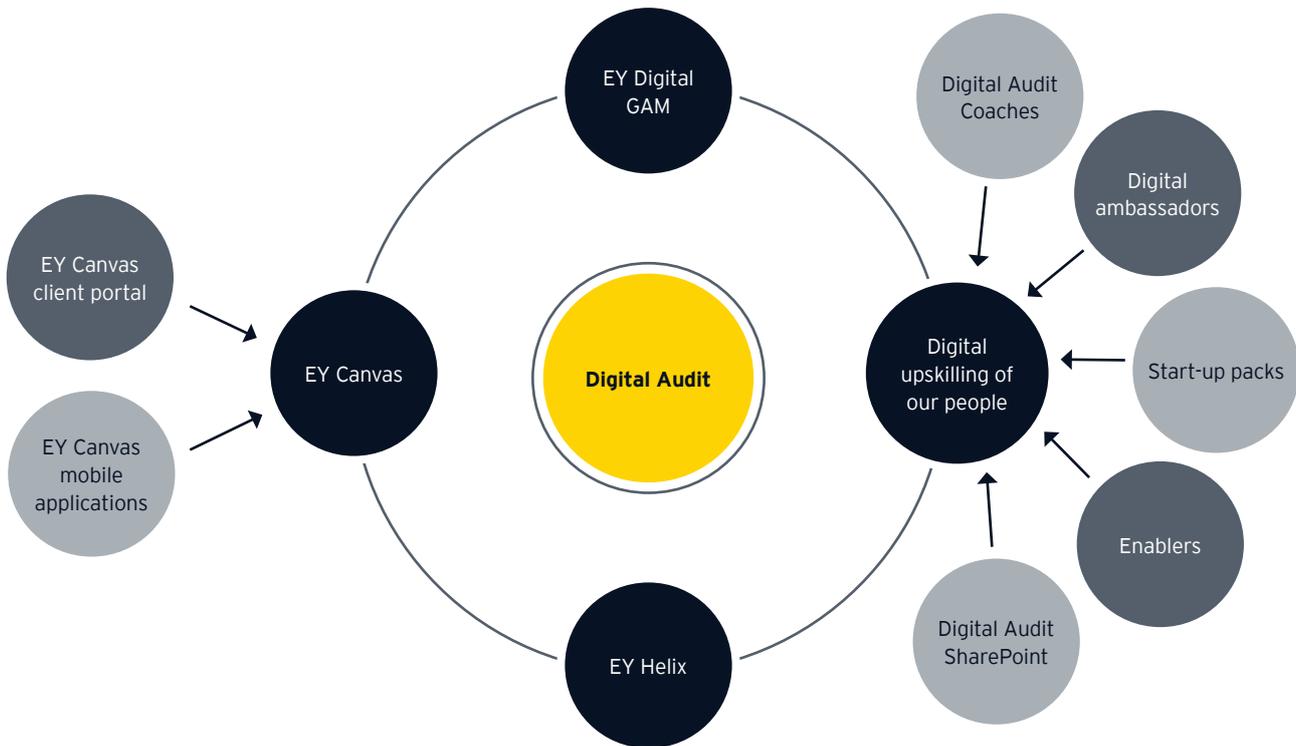
- ▶ Better connecting audit teams across the globe
- ▶ Automating standard audit processes and procedures, enabling teams to focus on higher risk, subjective areas

- ▶ Identifying all routes for processing financial transactions to understand the differing risks that these can present
- ▶ Analysing data to improve risk assessments and understand trends or anomalies in entire data populations
- ▶ Providing better insights and challenge to the companies we audit

This new approach was first piloted in FY20. In FY21, we expanded our adoption to 143 engagements, with plans to increase this to circa 1,400 engagements in FY22. We also have a target for all relevant engagements to fully adopt Digital GAM by FY23. We significantly scaled down the levels of planned adoption in FY21 in recognition of the additional pressure COVID-19 put our on people. The phased deployment also ensures we invest adequate time in upskilling each audit team.

The diagram below highlights the key elements of our EY Digital Audit approach. Further details are set out on the following page.

Key elements of our Digital Audit





Audit technology and digital

EY Canvas

EY Canvas is the first totally online audit platform in the profession. Hosted on the EY private cloud, it allows our teams to seamlessly navigate, coordinate, manage and drive a consistent audit globally, irrespective of size, complexity or location. It also helps us to meet the expectations and evolving needs of investors, regulators and the companies we audit. Continuous improvements have been made to EY Canvas to add functions to simplify and aid teams with effective project management, including facilitating our Milestones programme.

EY Canvas Client Portal is integrated into EY Canvas and connects management directly with the audit team. This streamlines communications, the sharing of information and the ability to monitor the progress of audit requests in real time.

In addition, the **EY Canvas Mobile Application suite** enables our auditors to get updates on audit status, manage their tasks and capture evidence easily while on the go. We have developed three mobile applications (EY Canvas Engage, EY Canvas Inventory and EY Canvas Pulse) that help to deliver a more efficient experience. Further applications are due to be released in FY22.

EY Helix

EY Helix is our global audit analytics platform which allows analytics to be embedded into every significant aspect of the audit. It includes a suite of data capture and analytics tools that dramatically increase not only the depth and breadth of captured data, but also the value of insight derived from it.

The EY Helix library of analysers supports the audit from risk assessment to execution, addressing a business' entire operating cycle. EY Helix has a direct impact on improving audit quality by enabling teams to move away from traditional sample selections and analyse entire populations of data. This improves risk identification and allows teams to focus on unusual trends and anomalies, which can then be investigated.

To ensure we obtain the right data in a smooth and efficient way and minimise disruption to the companies we audit, we developed an automated general ledger data extraction tool which operates across 36 IT systems. We also have a specialist central team dedicated to collecting and processing data in our analytics tools.

Digital upskilling

To support the implementation of EY Digital GAM and ensure we maintain audit quality while we undergo this transformation, we have continued our journey to upskill our teams. This has included:

- ▶ Expanding our network of **digital ambassadors**
- ▶ Allocating a **dedicated coach** to all partners and associate partners who are new to EY Digital GAM, to help them and their teams in their transition journey into Digital Audit
- ▶ Establishing an EY Digital GAM **start-up pack** which highlights key topics such as changes with EY Digital GAM, key enablers and requirements
- ▶ Creating **enablers** to help implement EY Helix Analysers and related work programmes, including example workpapers to drive consistency across engagements
- ▶ Launching a new **Digital Audit SharePoint** to publicise enablement resources and solutions designed to help make audits more digital

We continue to build our technology skills and experiences across our business in line with our Tech@EY global strategy.



Simplification and innovation

Strategic initiatives

Standardisation (FY22 priority)

Our inspection findings show that there is a need for improved consistency in our audits. Promoting the standardisation of best practice tools and approaches to our work is an important response to this.

Standardisation enables a simplified but more effective review process, allowing senior members of the team to focus on challenging the judgements involved in the audit and ensuring we have the right quality evidence.

This initiative builds upon the high-quality outcomes across many of our audits and leverages best practice from these to develop standard work programmes and templates, which will drive greater consistency.

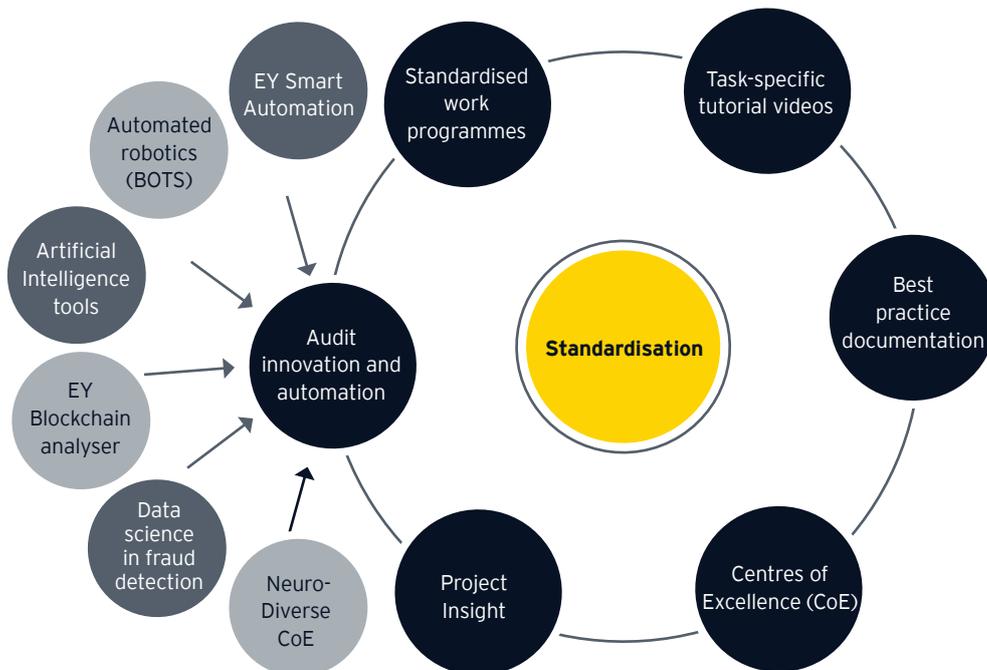
The diagram below highlights the key elements of our standardisation initiative and the linkage with the EY Digital Audit noted on page 17.

During FY21, we issued the following items:

- ▶ **Standardised work programmes** on ISA 600 Group Oversight, expected credit losses and auditing cash flow statements.
- ▶ **Task-specific tutorial videos** with the purpose of guiding our auditors to complete specific tasks efficiently and effectively and ensuring consistent messaging across our audit teams. One of these videos provides guidance in relation to writing clearly and professionally.
- ▶ **Best practice documentation** examples for key audit areas so teams have a clear idea of 'what good looks like'. As part of EY Digital GAM, various example audit workbooks have also been issued.

More of these will be developed in FY22 where appropriate.

Key elements of our standardisation initiative





Simplification and innovation

Audit innovation and automation

Both at an EY Global and UK level, we continue to invest in audit innovation and automation. Various projects are listed below:

- ▶ **EY Smart Automation** is a global programme to automate audit procedures and processes that are manual, administrative and repetitive such as, sending and receiving confirmation requests. EY Smart Workpapers is another automation solution, currently in the pilot phase, which provides a library of standardised audit workpapers automatically synchronised with EY Canvas and EY Helix.
- ▶ Our UK team is continuing to develop **automated robotics (BOTS)** to complete routine tasks. These often align with other technology developments, such as EY Helix analysers.
- ▶ **AI-enabled tools** – Document intelligence tools use machine reading to automate the extraction of key data fields from contracts and conduct transaction testing by vouching PDF invoices and proof of delivery back to sample selections. We are also piloting EY Canvas AI, a solution to explore how AI could be applied audits to support audit strategy decisions. This solution draw insights from both EY Canvas and other external data sources, to identify potential inconsistencies e.g., in how audit teams are identifying and addressing risk in different sectors.
- ▶ We also continue to investigate new ways of enhancing our ability to detect frauds and are currently experimenting using **data science** techniques in several areas. If successful, we will look at deploying these techniques at scale in future.
- ▶ EY is set to launch a **Neuro-Diverse Centre of Excellence (NCoE)** in the UK to fuel innovation in technology, bring a new dimension of creativity, and drive greater diversity and inclusion in the workplace. The NCoE is designed to create a supportive working environment for individuals with cognitive differences – such as autism, dyslexia and ADHD – that will help them to apply their strengths and meet business needs in emerging technologies, such as artificial intelligence, data analytics, automation, blockchain and cyber. Based on the experience of EY in the US, when compared to their colleagues, neurodivergent employees excelled at innovation. Over the next three years, the NCoE has set itself the ambition to hire 150 neurodivergent individuals, who will work with EY's various UK service lines.
- ▶ The **EY Blockchain** analyser is a suite of blockchain audit technologies. This includes analysers that enhance the ability to perform an in-depth review of cryptocurrency transactions.

Project Insight

Project Insight drives early intervention from the most senior members of the audit team to improve risk identification in a company's business processes and controls, and design procedures to address these risks.

This EY Global programme was initially developed by EY US to support meeting its responsibilities on Securities and Exchange Commission (SEC) registrants under the Sarbanes-Oxley regulations. It is now mandatory for all our audits involved with reporting to US SEC registrants to adopt this. We are taking learnings from this experience and investigating if a similar programme for Non-US public interest entities (PIEs) should be developed in the UK.

Centres of Excellence

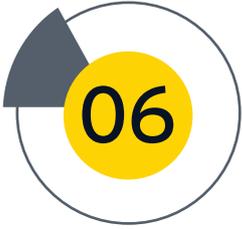
During the year, we have centralised certain audit support activities to reduce the administrative burden on our audit teams, including engagement continuance procedures. We are also in the process of creating a CoE for the audit of impairment, as noted on page 12.

Our PLOT for high-quality outcomes

In collaboration with cognitive psychologists, we identified 10 core factors of individual drive, thought process and team culture that were common among high-performing audit teams.

A key component of this model is ensuring that teams clearly understand the purpose and expected outputs of any task on an audit before they start, commonly known as Purpose-Led Outcome Thinking (PLOT) within EY. PLOT is commonly used across our audits to coach and approach work. Root cause analysis highlights that where this is not done, time can be wasted in preparing and reviewing work, and audit quality can suffer as a result.

The importance of PLOT was reinforced to all staff in 2021 as one of our priority initiatives. Whilst this is now embedded as 'business as usual', it will continue to be promoted and its impact assessed on an ongoing basis.



Enablement and quality support

Strategic initiatives

Driving consistent quality control

Our Audit Quality Support Team (AQST) and Key Findings Reviews (KFR) coaching programmes have been in existence for a number of years. These involve in-flight reviews of audits and providing feedback to audit teams. Due to their success, we refreshed the engagement selection criteria to ensure support was provided on our most complex audits. The escalation and reporting procedures have also been reviewed to ensure a consistent approach across all reviews. The number of hours spent on these programmes has more than doubled since FY19, reaching 23,000 hours in FY21.

During FY21 we carried out the following:

- ▶ Training for all our qualified auditors on performing an effective detailed and general level review to reconfirm expectations of this critical task.
- ▶ A pilot of 24 engagements where audit senior managers carried out an in-flight peer review of the audit file (this is in addition to our AQST and KFR programmes). The feedback from this pilot has been positive and we plan to expand this to further engagements in FY22.
- ▶ Reassessment of the Engagement Quality Control Review partner process on our public interest entity audits. This included additional training and support to help partners perform this role in the most effective way.

Enhance risk assessment

We are continuing to develop an enhanced risk assessment solution for the UK firm's portfolio of audited entities. The tool will analyse multiple data sources (e.g., Financial Conduct Authority short selling, social media, etc.) to identify adverse factors in relation to specific companies or sectors. This is separate to the risk assessment performed by individual audit teams. However, where relevant, outputs will be shared with individual teams so they can benefit from these broader insights and respond to the risks in a timely manner.

Audit response to climate change

During FY21 we created additional support for audit teams to assist them with understanding the audit-related risks associated with climate change. In FY22, we are refreshing this work with the purpose of improving and standardising our audit response to climate change. We also plan to establish a support framework between our audit teams and our Climate Change and Sustainability Services (CCaSS) specialists. This will help to ensure a robust response when considering the impact of climate change on the companies we audit and how this needs to be addressed in our audit procedures.

Milestones programme

The EY Global Milestones programme tracks the progress of audits against an expected benchmark, including completion of early planning and timely partner involvement. This is now a core function within our EY Canvas audit platform and allows individual teams to project manage their work proactively, while also allowing effective central oversight and monitoring of audit status.

As last year, we expect every audit taking over 500 hours to apply the Milestones programme and we centrally monitor the progress of audits that exceed 1,000 hours in doing so.

Our Milestones targets for the completion of key audit planning tasks are set early in the audit lifecycle. This allows potential delays to be flagged when sufficient time remains to complete work to a high standard. The delays and additional complexities of audits caused by COVID-19 mean that meeting these early milestone targets remains challenging. Where engagements are behind schedule, status is assessed in conjunction with the audit

team and if necessary, issues are escalated through our governance processes and actions taken to help teams get back on track.

Root cause analysis

Root cause analysis is considered a key function in our quality improvement framework. In FY21, our strategy introduced a more streamlined RCA process and a thorough review of the methodology was conducted by both internal and external parties.

We have continued to significantly increase the hours spent on RCA in the last two years to over **3,500** hours in FY21.

Our RCA process has been transferred out of our strategic initiatives for FY22 as the process is now mature and well embedded. It will continue to be a vital part of our audit quality infrastructure.

UK audit quality governance

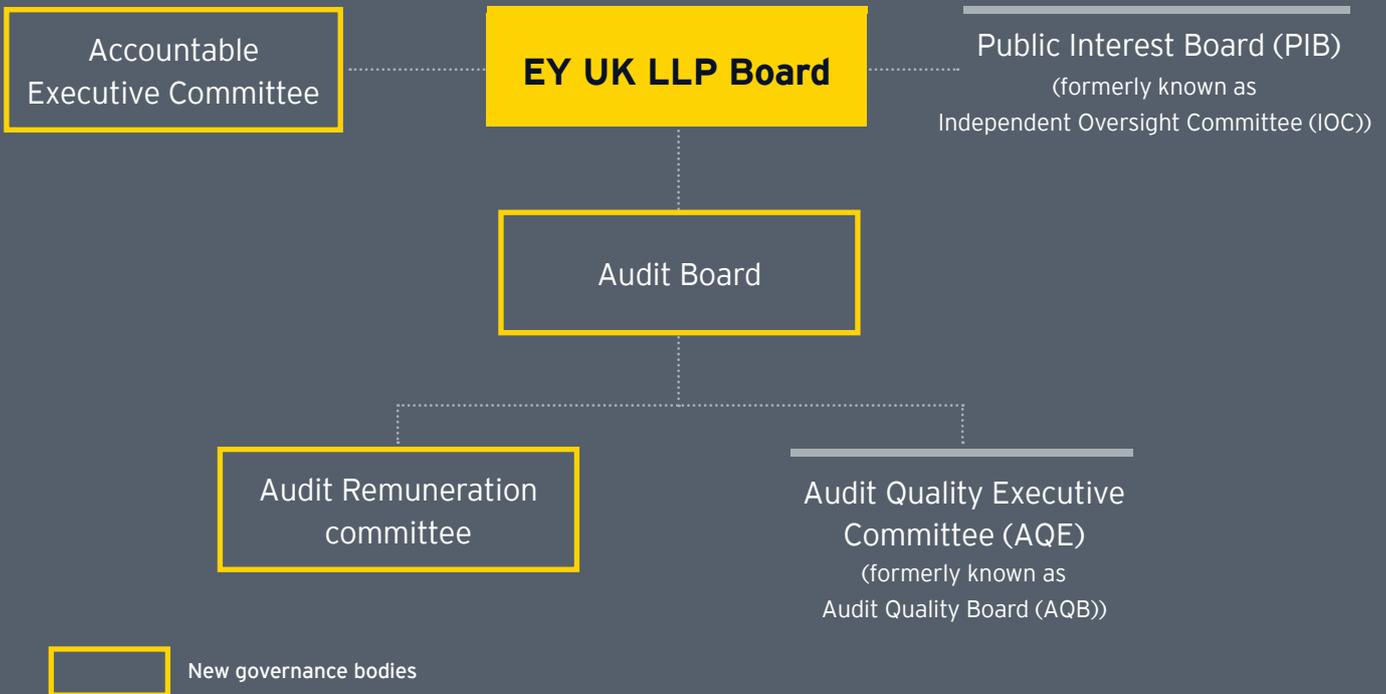
There are several global roles and functions that have direct accountability for creating, implementing, improving and monitoring activities related to audit quality control. We have embedded and built upon these global roles to develop a clear structure for the oversight and monitoring of audit quality in the UK.

In readiness for operational separation reform, changes to our firm's governance structure were implemented on 1 July 2021. The revised structure strengthens our oversight of audit quality. It builds on our culture of challenge through various levels of review, including from our independent Audit Non-

Executives (ANE's), who bring a range of diverse experiences to the Audit Board they sit on. Further details on each of these bodies can be found on the next page.

In the UK we operate two audit businesses: UK and Ireland (UK&I) and UK Financial Services (FS). These businesses have separate leadership teams who report directly into the LLP Board. Going forward, these leadership teams will retain management responsibility for the UK&I and UK FS audit businesses and continue to report directly to the LLP Board.

Our revised audit quality structure from 1 July 2021



“

Audit plays a vital role in the capital markets, providing trust, confidence and transparency to a broad set of stakeholders. The establishment of a UK Audit Board will support EY's focus on these principles by providing independent oversight of and challenge to the UK audit practice.

David Thorburn

Chair of EY's new UK Audit Board

Our three lines of defence

As part of operational separation and our preparations for the impending implementation of ISQM 1, we are also taking the opportunity to revisit how we manage risks to audit quality across the existing three lines of defence in our audit business. The activities and responsibilities within this structure are being reviewed and reset during the course of FY22.

This is driven by the overarching principle that:

- ▶ Our audit teams and auditors are the first line of defence in delivering high-quality audits. They need to have the training, capacity and support to deliver high-quality audits that are 'right first time'. The Quality Enablement Leaders are responsible for delivering this.

- ▶ The second line of defence provides the independent review and consultation necessary on key judgements being made by our audit teams. The second line also drives key learnings back into the first line through their experience of common difficulties being faced by audit teams and via root cause analysis. Second line activities are mainly delivered by our professional practice directorate (PPD).
- ▶ The third line then provides a further independent check on operations in the first and second lines. This is primarily conducted through Internal Audit.

The views from our independent regulators are, of course, an important source of feedback too.

EY UK LLP Board

The terms of reference and composition of the EY UK Board have been revisited. The Board continues to be responsible for promoting and protecting the interests of the firm and the general and operational management of the firm as a whole, including overseeing compliance with all applicable professional regulatory and legal requirements. From October 2021, the composition of the Board is now made up of seven roles-based appointments, two UK&I representatives who are members of the Firm, one FS representative who is a member of the Firm and up to two co-opted members.

Public Interest Board (PIB)

The remit of the PIB is to enhance the firm's performance in meeting the purpose of the Audit Firm Governance Code, which has the following principal objectives: to promote audit quality, to help the firm secure its reputation more broadly, including that of its non-audit business, and to reduce the risk of firm failure.

The Public Interest Board is formed by four Independent Non-Executives (INEs) including the chair, Tonia Lovell, UK Country managing partner, FS managing partner and the head of UK risk.

Audit Board and Audit Remuneration Committee

As part of fulfilling the Financial Reporting Council's requirements on the operational separation of our UK audit practice, the Audit Board and Audit Remuneration Committee were established on 1 July 2021. The role of the Audit Board is to provide independent oversight of the firm's pursuit of audit quality improvement by ensuring that people in the EY UK Audit Practice are focused above all on the delivery of high-quality audits in the public interest, having regard to the need to ensure that audit remains an attractive and reputable profession and to increase deserved confidence in audit.

The Audit Board is comprised of four Audit Non Executives and three EY executives. Three of the four Audit Non Executives, including the Chair David Thorburn, are also firm-wide INEs. The EY executives are the UK Head of Audit, UK FS Head of Audit and the Audit Compliance Principal.

In addition, EY has also established an Audit Remuneration Committee as a sub-committee of the Audit Board. The Audit Remuneration Committee is comprised solely of ANEs and its role is to oversee the remuneration of audit partners.

Accountable Executive Committee

The Accountable Executive Committee is responsible for ensuring the FRC's principles and outcomes for operational separation are delivered, embedded and monitored.

The Accountable Executive Committee is chaired by Hywel Ball, UK&I Regional Management Partner and LLP Board Chair, and meets every six months. Other members include the UK FS Managing Partner and the UK Chief Operating Officer.

Audit Quality Executive Committee

The AQE oversees all matters relating to audit quality. It is chaired by the UK Quality Enablement Leader (QEL) and meets monthly. Other members include the UK Head of Audit, FS Head of Audit, Audit Compliance Principal, Audit Monitoring Officer and the QELs for the UK&I and FS audit businesses.

UK Quality Enablement Leaders

The UK QELs lead the audit quality programme in the UK. To reflect specific skills and experience, we have separate QELs for financial services and non-financial services audit functions. UK QELs are representatives in the regional and global QEL networks.

Professional Practice Directorate

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